

Discussion

**Cultural Proximity and the Processing of
Financial Information**

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WFA

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Context: culture, economy, and finance

- The impact of culture on economic and financial outcomes
 - stock market participation (Guiso, Sapienza, and Zingales 2008)
 - trade and investment flows (Guiso, Sapienza, and Zingales 2009)
 - momentum portfolio returns (Chui, Timan, and Wei 2010)
 - mergers (Ahern, Daminelli, and Fracassi 2012)
 - credit allocations (Fisman, Paravisni, and Vig 2012)
- Contribution: the impact of culture on information asymmetry in the financial markets

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- Contribution: the impact of culture on **information asymmetry** in the financial markets

Summary of the paper's findings

- Analysts of Chinese ethnicity issue more precise earnings forecasts for firms from the pan-Chinese region than analysts of other ethnicities
 - effect more prominent for analysts of first-generation Chinese immigrants

Within groups

- For all the firms covered by the same analyst of Chinese ethnicity, earnings forecasts are more precise for firms from the pan-Chinese region than for firms headquartered in the U.S.
- Among all the analysts covering the same firm from the pan-Chinese region, analysts of Chinese ethnic origin issue more precise earnings forecasts

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Outline

1 Intuition and results

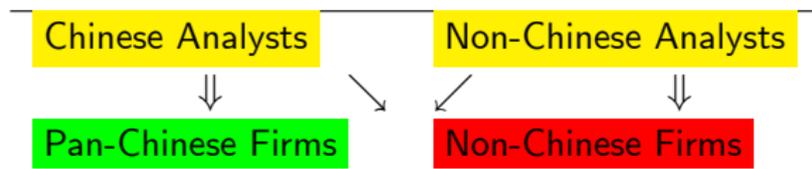
2 Comments

Implied empirical specification of earnings forecast

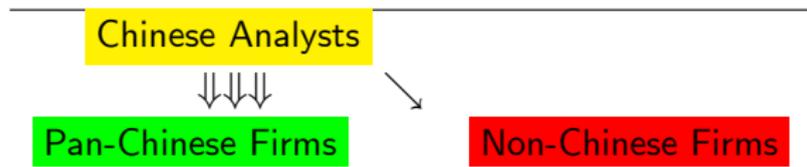
$$\text{Expected earnings} = f(\text{common/observable factors; culture}) + \xi$$

Testable prediction: Analysts with certain ethnic origin should do better in forecasting earnings of the firms from that country.

Empirical test setting

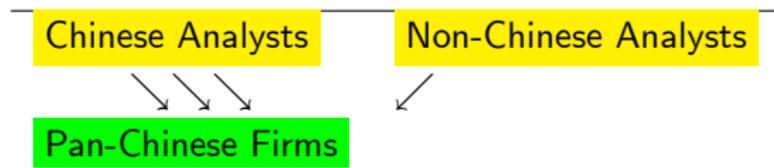


Test 1



Result: For all the firms covered by the same analyst of Chinese ethnicity, earnings forecasts are more precise for firms from the pan-Chinese region than for firms headquartered in the U.S.

Test 2



Result: Among all the analysts covering the same firm from the pan-Chinese region, analysts of Chinese ethnic origin issue more precise earning forecasts

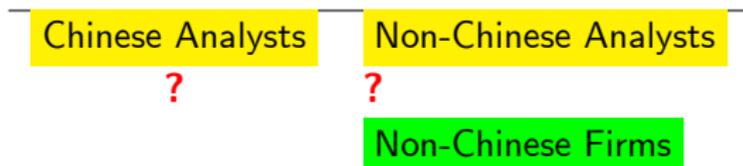
Robustness checks

An impressive list of robustness checks or controls:

- 1 language
- 2 non-Chinese analysts with Chinese colleagues
- 3 optimistic earnings forecasts by Chinese analysts
- 4 number of firms followed and the frequency of revisions
- 5 etc.

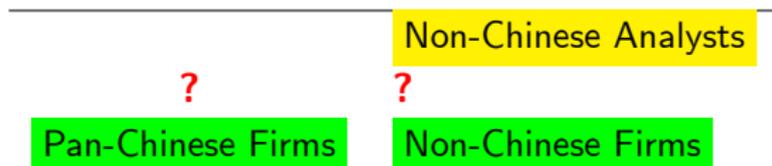
Comment 1: additional test 1

Extra validation check: Do Chinese analysts also issue more precise forecasts for non-Chinese firms?



Comment 1: additional test 2

Extra validation check: Do non-Chinese analysts issue more precise forecasts for non-Chinese firms?



Comment 2

- Main idea: culture affects information asymmetry in the financial markets
- Tests: ethnicity (proxy for culture) proximity leads to more precise earnings forecast

Imply:

- More precise earnings forecast \iff less information asymmetry
- Can we directly test whether culture proximity mitigates information asymmetry?

Mispricing can be a proxy for changes in information asymmetry
(Myers and Majluf 1984; Choe, Masulis, and Nanda 1993)

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	(1)	(2)	(3)	(4)
Chinese Analyst	-0.002*** (0.000)	-0.002*** (0.000)		
Chinese Firm	-0.001*** (0.001)	-0.003*** (0.001)		
Chinese Analyst \times Chinese Firm		0.000 (0.001)		
Upward Revision	0.022*** (0.000)	0.022*** (0.000)	0.019*** (0.000)	0.019*** (0.000)
Chinese Analyst \times Chinese Firm \times Upward Revision		0.011*** (0.002)	0.008** (0.003)	0.008** (0.004)

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- More generally, for the similar negative earnings announcement for Chinese firms, price discount should be smaller with (more) Chinese analysts coverage

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- Main idea: culture proximity helps to produce more precise earnings forecasts?

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- analysts' superior access to the management of firms
- analysts specializing in covering Chinese firms

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Conclusion

Very nice and interesting paper!

Would be nice to see additional tests